

VZCZCXRO2831
RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV
DE RUEHSL #0144/01 0711611
ZNR UUUUU ZZH
R 121611Z MAR 07
FM AMEMBASSY BRATISLAVA
TO RUEHC/SECSTATE WASHDC 0760
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 BRATISLAVA 000144

SIPDIS

SIPDIS

TREASURY FOR AALIKONIS
USDOC FOR MROGERS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [LO](#)

SUBJECT: SLOVAKIA'S 2006 GDP GROWTH AT 8.3 PERCENT SECOND HIGHEST IN EU

¶1. SUMMARY: Slovakia's economy continues full steam ahead, posting 9.6 percent growth in the fourth quarter of 2006, and a year-ending GDP growth of 8.3 percent in real prices for 2006. GDP growth was driven mainly by net exports, including roll-out production of automotive companies, machinery and electro- technical industry. The corporate sector is the primary beneficiary of this growth, as real wage growth lagged well behind productivity levels. Analysts expect rapid GDP growth around 11.5 percent in the first months of 2007 as KIA and Peugeot continue to boost production. Ruling and opposition political parties are taking credit for the positive economic data. END SUMMARY

STRUCTURE OF GROWTH IS BALANCED

¶12. Slovakia's gross domestic product (GDP) rose by a real annual rate of 9.6 percent in the fourth quarter, to SKK 438.8 billion (USD 16.9 billion) in fixed prices, beating all market forecasts by two percentage points. For the full year 2006, the Slovak economy accelerated by 8.3 percent year-on-year, the highest rate in 10 years, to SKK 1,636 billion (USD 63 billion), after a 6.1 percent growth in 2005. Slovakia has had the second highest GDP growth rate among EU countries, following Estonia with GDP growth at 11.2 percent, and fastest growth in central Europe. Sources of net exports to domestic demand are at 55 - 45 percent, while private consumption was up 6.1 percent. Value added manufacturing increased by 16.6 percent, out of which automobile/ electronics/machinery grew by a stunning 50.8 percent. January 2007 industrial production reached 17.4 percent, beating all expectations. Auto production increased by 126 percent, which was greater than the 104 percent expected from the start of production at Peugeot and Kia. Car plants are expected to produce 585,000 cars in 2007 compared with last year's 292,000.

UNEMPLOYMENT AT A SIX-YEAR LOW

¶13. According to the Statistical Office (using data based on random telephone surveys), Slovakia's unemployment rate fell 3.3 percentage points year-on-year in the fourth quarter, to 12 percent, the lowest rate since the same period of 1998. The overall number of unemployed fell 88,600 to 319,000, and the jobless rate fell 2.9 percentage points in 2006 to 13.3 percent. (NOTE: Statistics provided by the Ministry of Labor, which are more in line with the U.S. methodology focusing on those actively seeking employment, indicated that unemployment on a seasonally adjusted base dropped to 9.4 percent in December, the lowest rate since 1993). On average 2.3 million people were employed in 2006, which is a 3.8 percent increase in comparison with year 2005. The employment rate grew by 1.7 percentage points to 60.2 percent over the previous year.

PRODUCTIVITY OUTPERFORMED WAGES

14. Real wage growth of 3.9 percent in the fourth quarter of 2006 was relatively low in comparison with the 7.4 percent increase in labor productivity. For the year real wages grew by 3.3 percent real wage growth while labor productivity increased by 5.8 percent. The average nominal monthly salary in the Slovak economy reached SKK 21,131 (USD 815) at the end of the fourth quarter 2006, up 8.6 percent from a year ago. On average, the Slovak monthly salary is approximately 77 percent of that in the Czech Republic, and remains lower than in Poland and Hungary. The strong economic growth primarily benefited owners of capital; profitability in the business sector was almost 26 percent.

15. COMMENT: The Slovak koruna has continued to strengthen (to SKK 25.9/USD as of 3/12) on the massive industrial growth and increasing exports. The structure of economic growth is expected to remain balanced, and other sectors (mainly electronics and machinery) are expected to build on automotive sector growth. Just last week Samsung confirmed an approximately EUR 450 million investment in an LCD manufacturing plant employing upwards of 3000 people and beginning production in 2010. Prime Minister Fico, who has been in office since the end of June 2006, and the opposition Slovak Christian and Democratic Union (SDKU), which was responsible for the reforms that led to the influx of FDI that is driving the growth, both take credit for the record economic performance. Although most economic analysts side with the former government, Fico's strong polling numbers suggest that the current government is one of the prime beneficiaries. Continued strong economic expansion beyond 2007 and 2008 will depend on several key decisions of the present government to be made in 2007, including reform of the hospital

BRATISLAVA 00000144 002 OF 002

system, announced changes in pension system, as well as new amendments to the labor code. Even more important from a business standpoint is the ability of investors to continue to find qualified personnel in an ever-tightening labor market, especially in Western Slovakia. END COMMENT.

VALLEE